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Message Text

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13
ACTION COME-00

INFO OCT-01 EUR-25 IO-12 ADP-00 SCI-06 AEC-11 AGR-20 INT-08

AID-20 CIAE-00 EB-11 FRB-02 INR-09 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01

OMB-01 NSC-10 SS-14 STR-08 CEA-02 PA-03 PRS-01 USIA-12

RSR-01 L-03 H-02 /212 W
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R 191705 Z MAR 73
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC 915
INFO USMISSION EC BRUSSELS
USMISSION GENEVA

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E. O. 11652: N/ A
TAGS: ETRD NL
SUBJECT: FOREIGN EXPORT AND DOMESTIC SUBSIDY PROGRAM: NETHERLANDS

REF STATE 32280; THE HAGUE 5156

SUMMARY: GON SUBSIDIZES DUTCH INDUSTRY TO LIMITED DEGREE THROUGH DIRECT SUPPORT, EXPORT FINANCING, R& D ASSISTANCE, AND GOVERNMENT PROCUREMENT PRACTICES. PROCUREMENT PRACTICES PARTICULARLY ARE OF SOME CONCERN TO U. S. FIRMS INCLUDING WESTINGHOUSE, IBM AND INTERNATIONAL TELEPHONE. OVERALL TRADE DISTORTING EFFECTS OF SUBSIDIZATION ARE NOT HIGH. END SUMMARY.

1. EMBASSY' S 5156 COMPREHENSIVELY SUMMARIZED NETHERLANDS SUBSIDIZATION PRACTICES CONCERNING VARIOUS BRANCHES OF INDUSTRY, INCLUDING VALUATION OF EACH SUBSIDY.

2. FOLLOWING SUPPLEMENTAL INFORMATION ON GOVERNMENT PROCUREMENT AND R& D ASSISTANCE MAY BE HELPFUL TO DEPT. IN PREPARING FOR GATT EXAMINATION OF SUBSIDIES QUESTION:
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3. GON HAS NO FORMAL POLICY FAVORING DUTCH OVER FOREIGN CONCERNS IN GOVERNMENT PROCUREMENT. INFORMALLY, HOWEVER, DUTCH CONCERNS

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UNDOUBTEDLY ENJOY SOME PREFERENCE.

4. REGIONAL MANAGER OF WESTINGHOUSE (KLEES) STATES THAT, UPON SEEKING IN 1968 TO BID ON FIRST DUTCH NUCLEAR POWER PLANT, WESTING-HOUSE WAS INFORMED THAT ABOUT 72 PERCENT OF VALUE OF CONTRACT WOULD HAVE TO BE SUPPLIED BY DUTCH FIRMS. AS RESULT, SIEMENS, REPORTEDLY BACKED BY GERMAN GOVERNMENT SUBSIDY, CAPTURED CONTRACT.

5. UPON SEEKING TO BID ON SECOND PLANT LAST YEAR, WESTINGHOUSE WAS TOLD THAT ONLY DUTCH FIRM COULD BE " CONSORTIUM LEADER", AND THAT THE ONLY TWO PROSPECTIVE " CONSORTIUM LEADERS" WERE ALREADY TIED TO SIEMENS AND GENERAL ELECTRIC, RESPECTIVELY. MOREOVER INVITATION TO BID REPORTEDLY CONTAINED FOLLOWING PHRASE, " LOCAL SUPPLIERS WITH EQUIVALENT QUALITY AND PRICE ARE PREFERRED."

6. IBM DEPUTY MANAGER HERE (STEREL) REPORTS THAT DUTCH GOVERNMENT AGENCIES REQUIRE PERMISSION OF KMC GOVERNMENT CENTER FOR OFFICE MACHINERY TO PURCHASE COMPUTERS AND ACCESSORIES. KMC REPORTEDLY HAS INFORMAL GOVERNMENT INSTRUCTION TO ORDER FROM PHILIPS " IF PHILIPS CAN SOLVE THE PROBLEM," EVEN THOUGH QUALITY OF EQUIPMENT MAY BE SLIGHTLY LOWER.

7. INTERNATIONAL TELEPHONE MANAGER (JONKERS) ASSERTS THAT LAST YEAR FOUR MILLION DOLLAR CONTRACT TO SUPPLY NEW DATA COMMUNICATIONS SYSTEM FOR DUTCH AIR FORCE WAS LOST WHEN PHILIPS-- WHICH HAD SUBMITTED HIGHER BID THAN ITT-- WAS GIVEN SECOND CHANCE, AND THEN MATCHED ITT BID. JONKERS CLAIMS, MOREOVER, THAT ITT EQUIPMENT WAS TECHNOLOGICALLY CLEARLY SUPERIOR.

8. DUTCH GOVT HAS ESTABLISHED SPECIAL OFFICE IN MINISTRY OF ECONOMIC AFFAIRS FOR PURPOSE OF ASSURING THAT DUTCH INDUSTRY OBTAINS SIGNIFICANT SHARE OF ANY CONTRACT FOR IMPORT INTO HOLLAND OF MILITARY EQUIPMENT.

9. GON RATHER HURRIEDLY AWARDED CONTRACTS TO DEVELOP NATIONAL AIR AND WATER POLLUTION CONTROL SYSTEMS TO PHILIPS, WITHOUT INVITING BIDS OR PARTICIPATION OF FOREIGN FIRMS.

10. GENERAL ELECTRIC REGIONAL MANAGER (LENOX) TELLS US THAT GE
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REPRESENTATIVE IN WASHINGTON HAS FURTHER USEFUL INFORMATION ON DUTCH OFFICIAL PROCUREMENT PRACTICES, BUT PREFERRED NOT TO DISCUSS HIMSELF.

11. IN SPITE OF ABOVE- MENTIONED EXAMPLES, HOWEVER, IT IS CONSENSUS OF AMERICAN FIRMS HERE THAT GOVT PROCUREMENT PRACTICE IS LESS OF A NEGATIVE FACTOR FOR THEM IN HOLLAND THAN IN MOST OTHER EUROPEAN COUNTRIES, AND THAT EXPORT PRICING OF DUTCH NATIONAL PRODUCERS BENEFITS ONLY VERY MODESTLY FROM THIS PRACTICE.

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12. DUTCH GOVT REPORTS THAT ITS SPENDING FOR INDUSTRIAL R& D WILL TOTAL 250,000,000 GUILDERS THIS YEAR (88,000,000 DOLLARS AT PREVAILING RATE OF EXCHANGE), BUT OFFICIALS CONCEDE TO US THAT THIS FIGURE MODERATELY UNDERSTATES ACTUAL GOVT SUPPORT IN THIS AREA. MOST OF ADDITIONAL 43,500,000 GUILDERS BEING SPENT FOR SPACE RESEARCH SERVES PRIMARY PURPOSE OF OBTAINING EXPERIENCE AND FUTURE INTERNATIONAL ORDERS FOR DUTCH INDUSTRY. OUR SOURCES ESTIMATE THAT ADDITIONAL 20,000,000 GUILDERS OF FUNDS FOR GENERAL RESEARCH SERVES INDUSTRIAL PURPOSE, SO THAT TOTAL OF 300,000,000 GUILDERS IS REASONABLE ESTIMATE OF GOVT R& D ASSISTANCE TO INDUS-TRIES FOR PURPOSE MAINTENANCE INTERNATIONAL COMPETITIVENESS.

13. 300,000,000 GUILDERS CONSTITUTES 19 PERCENT OF OVERALL 1973 BUDGET FOR RESEARCH AND DEVELOPMENT, 0.7 PERCENT OF TOTAL 1973 BUDGETARY EXPENDITURES; AND 0.18 PERCENT OF EXPECTED GROSS NATIONAL PRODUCT. IT CONSTITUTES ABOUT 13 PERCENT OF TOTAL INDUSTRIAL R& D, INCLUDING EXPENDITURES OF PRIVATE FIRMS.

14. MAJOR ASPECT OF GOVT' S INDUSTRIAL R& D EFFORT THIS YEAR IS IN AREA OF NUCLEAR ENERGY. 85,000,000 GUILDERS WILL BE SPENT ON JOINT BENELUX FAST BREEDER REACTOR PROJECT, AND 34,000,000 GUILDERS ON JOINT UK- GERMAN- DUTCH ULTRACENTRIFUGE PROJECT. THROUGH THESE EXPENDITURES, GON HOPES TO CARVE OUT SIGNIFICANT FUTURE ROLE FOR DUTCH INDUSTRY IN PRODUCTION AND EXPORT OF GENERATORS, PUMPS AND OTHER COMPONENTS FOR NUCLEAR FUEL PLANTS.

15. NEXT LARGEST AREA OF R& D CONCENTRATION IS AIRCRAFT DEVELOPMENT, ON WHICH 25,000,000 GUILDERS WILL BE SPENT THIS YEAR, MAINLY TO IMPROVE FOKKER INTERNATIONAL COMPETITIVE POSITION.

16. AT OECD " CONFRONTATION MEETING" OF LAST YEAR, INTERNATIONAL EXPERT GROUP CRITICIZED DUTCH GOVT INDUSTRIAL R& D FOR FRITTERING
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AWAY RESOURCES ON TOO MANY PROJECTS, INCLUDING PROJECTS IN WHICH DUTCH INDUSTRY HAS NO NATURAL ADVANTAGES, AS WELL AS FOR INEFFEC-TIVE RESEARCH IN SOME GOVT RESEARCH CENTERS (SEE THE HAGUE A-193, 6/27/72 AND OECD' S SPT (72) OF 3/10/72).

17. SINCE SUBMISSION OF OUR PREVIOUS REPORT ON SUBSIDY PROGRAMS (THE HAGUE 5156), GON HAS ANNOUNCED MODERATE IMPROVEMENTS IN CREDIT INSURANCE FACILITIES AVAILABLE TO NETHERLANDS EXPORTERS (SEE THE HAGUE A-9, 1/9/73). GOVT' S EXPORT FINANCING AND INSURANCE EFFORT NEVERTHELESS REMAINS QUITE LIMITED.

18. AS TO AGRICULTURAL COMMODITY SUBSIDIES, NETHERLANDS ADHERES COMPLETELY TO THE EEC' S CAP SYSTEM. THERE ARE NO SEPARATE DUTCH GOVT SUBSIDIES. IN PRINCIPLE, THE FORMER MINISTER OF AGRICULTURE LARDINOIS STATED HE WAS PREPARED TO PAY SUBSIDIES ON " TRADITIONAL"

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AGRICULTURAL EXPORTS TO GDR BUT CONTRARY TO IMPLICATIONS OF BONN
3598 IT IS OUR UNDERSTANDING FROM MINISTRY OF AGRICULTURE SOURCES
THAT NO SUCH SUBSIDIES HAVE BEEN PAID NOR IS IT ANTICIPATED THEY
WILL BE PAID IN THE FUTURE.
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